

Original copies handed down **REPUBLIC OF FRANCE**
to the parties: IN THE NAME OF THE FRENCH PEOPLE

COUR D'APPEL DE PARIS

Division 1 – Chamber 1

JUDGEMENT OF 23 SEPTEMBER 2014

(N^o , 7 pages)

Entry number in the general register: **12/21810**

Decision referred to the Court: Appeal for annulment of a sentence of 5 September 2012 delivered under the aegis of the International Court of Arbitration of the International Chamber of Commerce of Paris, by one single arbitrator, Mr Pierre A. KARRER

CLAIMANT IN THE APPEAL

GENENTECH INC. Company governed by US law

acting through its legal representatives

1 DNA Way

SOUTH SAN FRANCISCO - CA 94080-4990

UNITED STATES

represented by Luca DE MARIA of the SELARL PELLERIN-DE MARIA - GUERRE, attorney-at-law at the bar of PARIS, ID N^o: L0018

assisted by Emmanuel GAILLARD and Elie KLEIMAN, attorneys-at-law at the bar of PARIS, ID N^o: J 006 and J 007

DEFENDANTS IN THE APPEAL:

HOECHST GMBH Company governed by German law

acting through its legal representatives

Industriepark Höchst

Bruningstrass 50

65926 FRANKFURT AM MAIN

GERMANY

represented by Alain FISSELIER of SCP AFG, local attorney-at-law at the bar of PARIS, ID N^o: L0044

assisted by Amet VAN HOOFT and Marion BARBIER, pleading attorneys-at-law at the bar of

PARIS, ID №: R 255

COMPANY SANOFI-AVENTIS DEUTSCHLAND GMBH company governed by the law of a foreign country **operating under the designation GMBH**

acting through its legal representatives

Industriepark Höchst

Bruningstrasse 50

62926 FRANKFURT AM MAIN

GERMANY

represented by Alain FISSELIER of SCP AFG, local attorney-at-law at the bar of PARIS, ID №: L0044

assisted by Amet VAN HOOFT and Marion BARBIER, pleading attorneys-at-law at the bar of PARIS, ID №: R 255

COMPOSITION OF THE COURT:

The case was heard on 17 June 2014, in open court, the report was heard, before the Court composed of:

Mr ACQUAVIVA, Presiding Judge:

Ms GUIHAL, Judge,

Ms DALLERY, Judge,

who took part in the deliberations

Registrar, during proceedings: Ms PATE

JUDGEMENT:

- IN THE PRESENCE OF ALL THE PARTIES

- judgement made available at the Court Registrar's office, the parties having previously been advised of this under the conditions provided in the second paragraph of Article 450 of the French Code of Civil Procedure.

- signed by Mr ACQUAVIVA, Presiding Judge, and by Ms PATE, Registrar, present when the judgement was handed down.

According to an agreement signed on 6 August 1992, the company governed by German law Behringwerke AG ("Behringwerke") specialising in biotechnology, which was succeeded by the company governed by German law Hoechst, granted, with retroactive effect from 1 January 1991, to the company Genentech, a company governed by the law of the state of Delaware (United States of America), a worldwide non-exclusive licence for the use of the enhancer for eukaryotic expression systems HCMV which was intended to enable an increase in the effectiveness of the cellular process used for the manufacture of proteins.

This technology gave rise to the grant of several patents, namely on the one hand on 22 April 1992 grant of a European Patent № EP 0173 177 53 (EP 177) subsequently revoked on 12 January 1999 by the European Patent Office for lack of novelty, and on the other hand on 15 December 1998 grant of a US patent № 5,849,522 and finally on 17 April 2001 a US patent № 6,218,140.

This agreement allowed Genentech to use the HCMV enhancer, with a view to manufacturing and using proteins for research purposes, and Genentech undertook, in return, in accordance with the terms of Article 3.1 of the agreement, to pay to Behringwerke, on the one hand, a single non-reimbursable royalty of DM 20,000 as costs for issue of the licence, and on the other hand, an annual fixed minimum royalty amounting to DM 20,000 for research purposes.

Moreover, this agreement likewise allowed Genentech in return *'running royalties amounting to half of one percent (0.5%) of net sales of finished products by the licensee, and its affiliated companies and sub-licensees'* to *'manufacture, use and sell the products under licence, identified by the licensee before their manufacture, in commercial quantities'*, the products under licence designating in the terms of the agreement *'the materials (including the organisms) in respect of which the manufacture, the use or the sale would contravene, in the absence of the present agreement, one or several unexpired claims included in the rights attached to the patents under licence'* and the finished products understood to be *'commercially negotiable goods incorporating a product under licence, sold in a form enabling them to be administered to patients for a therapeutic use or used in the context of a diagnostic procedure and which do not relate to and are not sold for the purpose of a novel formulation, a treatment, repackaging or relabelling before their use'*.

This latter royalty has never been paid by Genentech.

By a letter from its counsel dated 30 June 2008, Sanofi-Aventis Deutschland, a subsidiary of Hoechst, invited Genentech to share its observations, public information on the research developed by this latter being of such nature as to give the impression that it was selling finished products using the patented materials and processes, which confers the right to payment of the royalties provided by the licence agreement.

By a letter dated 27 August 2008, Genentech notified Sanofi-Aventis Deutschland of its decision to terminate the licence agreement with effect from 27 October 2008, in accordance with the provisions of Article 8.3 of said agreement.

It was under these circumstances that on 24 October 2008, considering that Genentech had used the CMV enhancer under licence in the recombinant synthesis of proteins in order to manufacture Rituxan and other medicinal products and by not paying the running royalties on the sale of all these medicaments had violated the licence contract, Hoechst, in accordance with the arbitration clause stipulated in Article 11 of the licence agreement, made a request for arbitration against Genentech at the International Court of Arbitration of the International Chamber of Commerce ("ICC").

On 2 July 2009, the International Court of Arbitration of the ICC has, following the proposal of the Swiss national committee, designated Mr Pierre A. Karrer as sole Arbitrator.

The terms of reference were signed on 16 August 2009 by the two parties and the sole Arbitrator.

In the meantime, on 27 October 2008, as Sanofi Deutschland submitted to the Federal District Court for the eastern district of Texas a suit for infringement of the patents-in-suit against Genentech and Biogen Idec, which had themselves taken action on the same date for invalidity of the patents under licence before the Federal District Court for the northern district of California, the two proceedings being finally combined before the Californian courts, Genentech requested the suspension of the arbitration, on the grounds of the existence of a *lis pendens*.

This application was rejected by the Arbitrator according to a first partial award made in Paris on 26 March 2010 which also set aside the pleas in law alleging the non-arbitrability of the litigation and the invalidity of the arbitration agreement.

By its judgement of 11 March 2011, the Federal District Court for the northern district of California decided that Rituxan did not constitute an infringement of the patents-in-suit. This decision was confirmed on 22 March 2012 by the Court of Appeal of the United States for the Federal Circuit and has become irrevocable.

In a second partial award made in Paris on 9 June 2011, the sole Arbitrator granted the request by Hoechst for communication of the financial reports relating to Rituxan, a product manufactured by the Genentech and alleged by Hoechst to constitute an infringement of the claims of the US patents under licence covered by the patent licensing agreement, without nevertheless pronouncing in the operative part on the liability of Genentech.

In a third partial award made in Paris on 5 September 2012, the sole Arbitrator held Genentech liable with regard to Rituxan and to the other products having the same properties, sentenced Genentech to pay to Hoechst the sum of 391,420.36 euros plus 293,565.27 US dollars relating to its representation costs, from 9 June 2011 to the date of the award, except for the costs concerning the evaluation of the quantum and reserved the decisions relating to the evaluation of the quantum, to all the costs of the arbitration, the costs of representation already undertaken for the evaluation of the quantum up to the date of the award and all the costs of future representation of the parties.

In fact, the Arbitrator considered the commercial object of the contract interpreted according to Article 242 of the German Civil Code which was to avoid any lawsuit on the validity of the US patents during the period of validity of the licence contract and considered consequently that the parties had foreseen that 'while the licence contract is in force, running royalties are due based on the manufacture of Rituxan even if, in the country of manufacture, the patent for manufacture of Rituxan were subsequently found to be invalid, and therefore if the manufacture of Rituxan were found not to have infringed the local patent in the sense of the right to patents in the country of grant and of manufacture'.

An action for cancellation was introduced on 10 December 2012 against the third partial award of 5 June 2012. (docket № 12/21810)

By order of 3 October 2013, the procedural judge conferred the exequatur to this latter award.

In view of the pleading notified on 27 March 2014 by RPVA by Genentech which requested that the Court:

* Primarily:

- decide on the cancellation of the third partial award made on 5 September 2012;

- decide on the cancellation of the final award made on 25 February 2013;

- decide on the cancellation of the Addendum made on 22 May 2013;

- if applicable, pose the following question to the European Commission: "Could the European Commission clarify whether the principles provided in paragraphs 81 and 156 of the communication from the Commission of 27 April 2004 entitled Guidelines concerning the application of Article 81, paragraph 3 of the EC Treaty to technology transfer agreements (OJ 2004/C 101/2) are likewise applicable in the event that a patent licensing agreement is interpreted as imposing on the licensee an obligation to pay royalties if the patented technology is not used in its products, that is to say if its

products do not infringe the claims of patent under licence' does such an interpretation in this case restrict competition within the meaning of Article 101 TFEU"

* Secondly:

- decide on the partial cancellation of the final award made on 25 February 2013 and of the Addendum made on 22 May 2013 concerning paragraphs relating to the payment of an interest rate which does not exist.

* In any case:

- reject the requests by Hoechst GmbH as a whole, including the request that the Parties be brought before the sole Arbitrator in the event that the awards are cancelled;

- reject the request by Hoechst GmbH for payment of the sum of 50,000 euros pursuant to Article 700 of the French Code of Civil Procedure;

- sentence Hoechst GmbH to pay the sum of 50,000 euros pursuant to Article 700 of the French Code of Civil Procedure and also all costs;

In view of the pleading notified on 29 April 2014 by RPVA by Hoechst GmbH and Sanofi GmbH which requested that the Court:

- reject as inadmissible, and in any case ill-founded, the action for revocation brought by Genentech against the third partial award dated 5 September 2012, of the fourth partial award or final award dated 22 February 2013 and the addendum to the final award dated 22 May 2013.

- in the further alternative and if, against all possibility, a partial or even total cancellation of one or several of these awards were decided, bring the parties before the sole Arbitrator Pierre Karrer so that he can adjudicate once again on the questions still to be decided in the current state of the first and of the second award which are definitive today and, if applicable, of subsequent awards such as will exist following the judgement to be made.

- sentence Genentech to pay the sum of 50,000 euros pursuant to Article 700 of the French Code of Civil Procedure and also all costs.

WHEREUPON

- On the means for cancellation of the plea alleging violation of international public order (Article 1520 5° of the French Code of Civil Procedure)

Genentech asserts that the licence agreement provided for the payment of royalties only in the event of infringement so that the decision of the sole Arbitrator who condemns it in this respect without finding any patent infringement contravenes European competition law and especially Article 101 of the Treaty on the Functioning of the European Union, in so far as it manufactures rituximab, an active compound of Rituxan, sold in the territory of the European Union (Germany, France, Italy), the resulting restriction has a direct effect on the flow of trade between the Member States.

It is maintained in fact that since, according to the case-law of the CJEU, royalties cannot be paid to a licensee for the use of an invention which does not constitute a patent infringement, the award contravenes European competition law by sentencing Genentech to payment of royalties without any

finding of patent infringement, requiring it to bear, for a technology which is not patented and is accessible without restriction, costs which are unjustified, in contravention of the principle of free competition.

Whereas it is maintained by the appellant that by obliging it to pay royalties without any finding of infringement when even in the terms of the licence contract they were only due for products of which the manufacture, the use or the sale would infringe, in the absence of this agreement, one or several unexpired claims comprised within the rights attached to the patents under licence, the award which imposes unjustified costs on it in contravention of competition law challenges international public order;

Whereas in the terms of the licence agreement entered into on 6 August 1992, the company governed by German law Behringwerke AG ("Behringwerke") specialising in biotechnology, which was succeeded by the company governed by German law Hoechst, granted, with retroactive effect from 1 January 1991, to the company Genentech a worldwide non-exclusive licence for the use of the enhancer for eukaryotic expression systems HCMV;

and whereas it is expressly shown by the introductory statement of this agreement that Genentech wished to take under licence the rights attached to the patents applied for by Behringwerke relating to an enhancer for eukaryotic expression systems for which it was the sole exclusive licensee;

and whereas this agreement expressly mentions that, subject to early termination, the licences granted will remain in force *'until the expiration of the last rights attached to the patents under licence in each country'*;

and whereas, moreover, the licence agreement defines the products under licence as designating *'the materials (including the organisms) in respect of which the manufacture, the use or the sale would contravene, in the absence of the present agreement, one or several unexpired claims included in the rights attached to the patents under licence'* and the finished products understood to be *'commercially negotiable goods incorporating a product under licence..'*

Whereas the parties have stipulated that the licence agreement would be interpreted and executed in accordance with the law of the Federal Republic of Germany and it is not contested that it authorises the licensor to claim royalties from the licensee until the termination of the contract, notwithstanding the subsequent invalidation of the patents to which the granted rights were attached;

and whereas the arbitration award made the contract applicable and considered that during the period of validity thereof the licensee was required to pay the royalties stipulated by the agreement even though the invalidation of the patents has a retroactive effect, the question therefore arises of knowing whether such a contract contravenes the provisions of Article 81 of the Treaty, now Article 101 of the Treaty on the Functioning of the European Union as distorting competition within the internal market in that, by subjecting the licensee to payment of royalties without cause by the effect of the invalidation of the patents attached to the granted rights, it inflicts a disadvantage in competition on the licensee;

and whereas consequently it is appropriate to refer to the Court of Justice of the European Union for the purpose of responding to the preliminary question set out in the operative part of the present judgement and postponing a ruling until the Court of Justice makes a decision;

FOR THESE REASONS,

Prior to any ruling,

The matter is referred to the Court of Justice of the European Union for the purpose of responding to the following question:

'Should the provisions of Article 81 of the Treaty, now Article 101 of the Treaty on the Functioning of the European Union, be interpreted as an obstacle to giving effect, in case of invalidation of the patents, to a licence contract which imposes on the licensee royalties for the sole use of the rights attached to the patents under licence?';

A ruling is postponed until the Court of Justice makes a decision;

The case will be removed from the list and restored at the request of the most diligent party as soon as the event referred to above occurs;

The costs are reserved.

THE REGISTRAR, THE PRESIDING JUDGE